



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Legislative Retirement Note

Short Title: Enhanced In-Service Retirement for LEOs.
Bill Number: House Bill 647 (First Edition)
Sponsor(s): Representatives McNeill and Potts

SUMMARY TABLE

ACTUARIAL IMPACT OF H.B. 647, V. 1 (\$ in thousands)

	<u>FY 2021-22</u>	<u>FY 2022-23</u>	<u>FY 2023-24</u>	<u>FY 2024-25</u>	<u>FY 2025-26</u>
Local Impact					
Local Governments	-	-	-	-	-
TOTAL LOCAL EXPENDITURES	-	-	-	-	-

This impact reflects the estimate from Cavanaugh Macdonald, which would be used in calculating the official actuarially determined employer contribution. See below for further details.

ACTUARIAL IMPACT SUMMARY

Systems Affected: Local Governmental Employees' Retirement System (LGERS)

House Bill 647 (First Edition) defines an "in-service retired law enforcement officer" as an LGERS retiree who is at least 59.5 years of age with at least 5 years of creditable service as a law enforcement officer (LEO) who is reemployed by a sheriff's office or police department as a school resource officer (SRO) or is elected sheriff. The in-service retired law enforcement officer will continue to receive his or her pension, will contribute to LGERS, and will earn additional service credit. Upon separation as an in-service retired law enforcement officer, the retiree may apply to have his or her benefit recalculated to reflect the additional service. Under current law, LGERS retirees can work during retirement for participating LGERS employers with certain limitations and the following table compares the current law with the provisions of this bill:

	LGERS Retirees under Current Law	In-Service Retired LEOs under House Bill 647
Earnings Limitation	Max of 50% of pre-retirement earnings or \$34,800 (in 2021)	Unlimited
Type of Employment	Part-time, temporary, interim, or fee-for-service	Full-time permanent SRO or sheriff
Contribute and Earn Service?	No	Yes
Required Break in Service after Retirement	One month	One month

Cavanaugh Macdonald, the actuary for the retirement systems, estimates that the bill will have no material impact on the contribution rates or liabilities of LGERS. Hartman & Associates, the actuary for the General Assembly, estimates that the bill will increase the actuarially determined employer contribution (ADEC) applicable to law enforcement officers in LGERS by 0.04% of compensation and increase the LGERS accrued liability by \$2.3 million. 0.04% of estimated law enforcement officer compensation is equal to \$529,928 across all local governments.

ASSUMPTIONS AND METHODOLOGY

The cost estimates of the actuaries are based on the employee data, actuarial assumptions and actuarial methods used to prepare the December 31, 2019 actuarial valuations, except where new assumptions based on the experience study completed in 2020 would have a material impact on the results. Significant membership and financial statistics, assumptions, methods, and benefit provisions are shown in the following tables:

Membership Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	LGERS
Active Members	
Count	132,058
General Fund Compensation	
Valuation Compensation (Total)	\$7,066M
Average Age	44
Average Service	9.9
Inactive Members	
Count	79,588
Retired Members	
Count	75,002
Annual Benefits	\$1,479M
Average Age	69
New Retirees During 2020	4,300

Financial Statistics (as of 12/31/2019 unless otherwise noted, M = millions)	
	LGERS
Accrued Liability (AL)	\$30,701M
Actuarial Value of Assets (AVA)	\$27,435M
Market Value of Assets (MVA)	\$28,225M
Unfunded Accrued Liability (AL - AVA)	\$3,266M
Funded Status (AVA / AL)	89%
Required Employer Contribution for FY 2021-22 (as % of pay)	11.35% (non-LEO)
Salary Increase Assumption (includes 3.50% inflation and productivity)	3.50% - 7.75%
Assumed Rate of Investment Return	7.00%
Cost Method	Entry Age Normal

Amortization: 12 year, closed, flat dollar
Demographic assumptions based on 2010-2014 experience, RP-2014 mortality, and projection of future mortality improvement with scale MP-2015

Benefit Provisions	
	<u>LGERS</u>
Formula	1.85% x Service x 4 Year Avg Pay
Unreduced retirement age/service	Any/30; 60/25; 65 (55 for LEO)/5
Employee contribution (as % of pay)	6%

Further detailed information concerning these assumptions and methods is shown in the actuary's report, which is available upon request from the Fiscal Research Division.

Hartman & Associates assumed a 15 percentage point increase in retirement rates for LEOs over age 59.5.

Both actuaries used statistics found in the 2021 School Resource Officer (SRO) Census reported by the Department of Public Instruction under Session Law 2019-222.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

Cavanaugh Macdonald Consulting, LLC, "Enhanced In-Service Retirement for LEOs – House Bill 647", May 3, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

Hartman & Associates, LLC, "House Bill 647: An Act Allowing Retired Law Enforcement Officers in the LGERS to Return to Work as School Resource Officers or Elected Sheriffs Without Impacting Their Retirement Benefits", April 30, 2021, original of which is on file in the General Assembly's Fiscal Research Division.

LEGISLATIVE ACTUARIAL NOTE – PURPOSE AND LIMITATIONS

This document is an official actuarial analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described above. This document only addresses sections of the bill that have projected direct actuarial impacts on State or local government retirement systems and does not address sections that have no projected actuarial impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

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Signed copy located in the NCGA Principal Clerk's Offices